

Message Text

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CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

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SUBJECT : FOREIGN INVESTMENT CLIMATE AND STATISTICS

REFERENCE : STATE 165596

1. THE STATEMENT ON INVESTMENT CLIMATE IN BANGLADESH
REQUESTED REFTEL (PAROI IN FULL SENTENCES) AND SUCH STATISTICS
AS ARE AVAILABLE ON FOREIGN INVESTMENT HERE (PART II, NON-ESSENTIAL
WORDS OMITTED), FOLLOW.

2. 1. FOREIGN INVESTMENT CLIMATE IN BANGLADESH

A. BANGLADESH SEEKS FOREIGN PRIVATE INVESTMENT AND ADOPTED
IN JULY 1974, AN INDUSTRIAL INVESTMENT POLICY SETTING FORTH GENERALLY
THE TERMS UNDER WHICH SUCH INVESTMENT IS WELCOME. THIS POLICY IS
PRAGMATIC AND REASONABLE AND HAS ATTRACTED SOME MODEST PROPOSALS FOR
NEW FOREIGN PRIVATE INVESTMENT SINOAITS ANNOUNCEMENT (ONLY ONE
PROPOSAL HAS ACTUALLY BEEN APPROVED). SIX OIL COMPANIES CONTRACTED
WITH THE BDG AND BEGAN OFFSHORE EXPLORATION DURING 1974.

B. IN 1972 BANGLADESH NATIONALIZED 85 PERCENT OF INDUSTRIAL
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CAPACITY. A MORATORIUM HAS BEEN PLACED ON FURTHER NATIONALIZATION

OF ALL NEW INVESTMENTS FOR 15 YEARS AFTER GOING INTO PRODUCTION. THE BANGLADESH GOVERNMENT IS COMMITTED TO PROVIDE COMPENSATION, BUT A SPECIFIC COMPENSATION POLICY HAS NOT YET BEEN ANNOUNCED. A NUMBER OF BRITISH AND AMERICAN FIRMS HAVE FILED COMPENSATION CLAIMS, BUT TO DATE THE GOVERNMENT REACTION HAS BEEN LIMITED TO THE GENERAL POLICY COMMITMENT TO PAY COMPENSATION.

C. THE INVESTMENT POLICY ALSO PROVIDES FOR MANAGEMENT CONTRACTS WITH FOREIGN PARTNERS IN PUBLIC -HYR PRIVATE-SECTOR JOINT VENTURES, FOR A GIVEN PERIOD UNTIL BANGALDESHARE ADEQUATELY TRAINED. THERE IS ALSO PROVISION FOR REMITTANCES OF PROFIT AND REPATRIATION OF CAPITAL, INCLUDING CAPITAL GAINS, BUT SPREAD OVER TEN YEARS.

SEVERAL PRIVATE FOREIGN FIRMS HAVE BEEN PERMITTED TO REMIT PROFITS AND/OR DIVIDENDS DURING THE PAST YEAR. IN ADDITION THERE IS AN INCOME TAX HOLIDAY FOR FIVE YEARS ON REINVESTMENT OF 50 PERCENT OF PROFIT, AND EXEMPTION FROM TAXATION FOR JOINT VENTURES WHICH EXPORT 100 PERCENT OF THEIR OUTPUT. OTHER INCENTIVES ARE OFFERED TOWARD THE ESTABLISHMENT OF INDUSTRIES THAT VARIOUSLY ARE LABOR-INTENSIVE, AGRO-BASED, EXPORT-ORIENTED AND/OR IMPORT-SUBSTITUTIVE.

D. TAX, TARIFF AND SUBSIDY POLICIES AFFECTING FOREIGN INVESTMENT ARE NOT INHIBITIVE. THE LABOR POLICY PROHIBITS STRIKES IN ESSENTIAL INDUSTRIES AND PUBLIC UTILITIES. THERE HS BEEN A

SIGNIFICANT IMPROVEMENT IN LABOR DISCIPLINE IN THE PAST YEAR AND THERE ARE INDICATIONS THAT THE GOVERNMENT INTENDS TO MAINTAIN LABOR DISCIPLINE.

E. THE MAIN DISINCENTIVE TO FOREIGN INVESTMENT IN BANGLADESH LIES NOT SO MUCH IN THE INVESTMENT POLICY PER SE AS IN THE LACK OF ORGANIZATION OF THE ECONOMY, THE CURRENT STAGNATION IN AGRICULTURAL/INDUSTRIAL AND TRADE DEVELOPMENT, GOVERNMENT PRICE AND OTHER CONTROLS, AND THE FOREIGN EXCHANGE CONSTRAINTS WHICH LIMIT THE SUPPLIES OF RAW MATERIALS AND SPARES. BANGLADESH APPEARS TO BE ADOPTING A MORE PRAGMATIC ATTITUDE TOWARDS FOREIGN INVESTMENT BUT, WE THINK, THE GOVERNMENT SHOULD ANNOUNCE AND IMPLEMENT A "PROMPT, ADEQUATE AND EFFECTIVE" NATIONALIZATION COMPENSATION POLICY AS A REAL INDICATION OF ITS DESIRE TO ATTRACT FOREIGN PRIVATE INVESTMENT, EFFECTIVE IMPLEMENTATION OF THE UNCLASSIFIED

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INCENTIVES TO FOREIGN INVESTMENT MAY FLOW FROM GROWING PRAGMATISM AND IMPROVED ADMINISTRATION ON THE PART OF GOVERNMENT. THE US CONCLUDED ON OPIC BILATERAL AGREEMENT IN JANUARY 1975, AND A TREATY OF FRIENDSHIP, COMMERCE, AND NAVIGATION IS UNDER CONSIDERATION. FOREIGN AID CONTINUES AT HIGH LEVELS.

3. II. INVESTMENT STATISTICS - NO DATA PUBLISHED; FOLLOWING ARE EMBASSY ESTIMATES.

A. US DIRECT INVESTMENT AT END OF 1974 ABOUT \$13 MILLION
TOTAL BOOK VALUE.

(I) MINING AND SMELTING: NONE

(II) PETROLEUM: ESSO, INCLUDING SHARE IN STANDARD
ASIATIC OIL LUBE BLENDING PLANT - \$4.3 MILLION
BOOK VALUE. HOWEVER, ESSO, ON ITS OWN
INITIATIVE, SOLD ITS OPERATION TO THE BDG IN
FEBRUARY, 1975. (WHICH BRINGS THE TOTAL VALUE OF
US INVESTMENTS TO UNDER \$10 MILLION AT PRESENT.)

(III) MANUFACTURING: TOTAL APPROXIMATELY \$5.0 MILLION,
INCLUDING SQUIBB \$1.8 MILLION; PFIZER \$2.4 MILLION;
AND SINGER \$1.0 MILLION.

(IV) OTHER INDUSTRIES: AROUND \$2 MILLION, INCLUDING
INTERCONTINENTAL HOTEL, INTERNATIONAL TANK TERMINAL

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(EDIBLE OIL AND TALLOW), AMERICAN LIFE INSURANCE,
AMERICAN EXPRESS, FIRST NATIONAL CITY BANK'S
SHARE IN NATIONAL AND GRINDLAYS AND NATIONAL CASH
REGISTER.

B. DIRECT INVESTMENT BY OTHER COUNTRIES AT END OF 1974 IS
ABOUT \$200 MILLION. LEADING INVESTOR COUNTRY IS UK. UK HIGH
COMMISSION PROVIDED ROUGH ESTIMATE OF \$170 MILLION TOTAL UK UNVEST-
MENT. US IS SECOND AND WEST GERMANY IS THIRD WITH ABOUT \$10 MILLION.

C. BANGLADESH'S INVESTMENT IN THE US IS NEGLIGIBLE.
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